

HIGHLAND COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION  
AND SCHEDULE OF FINDINGS

JUNE 30, 2006

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# HIGHLAND COMMUNITY SCHOOL DISTRICT

Officials  
June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
(Before September 2005 Election)		
Mike Roberts	Board President	2007
Ed Ossman	Board Member	2005
Becky Hanson	Board Member	2005
Vaughn Davisson	Board Member	2006
Kevin Engel	Board Member	2006
Robert Schneider, Jr.	Board Member	2007
Cindy Michel	Board Member	2007
(After September 2005 Election)		
Mike Roberts	Board President	2007
Vaughn Davisson	Board Member	2006
Kevin Engel	Board Member	2006
Robert Schneider, Jr.	Board Member	2007
Cindy Michel	Board Member	2007
Ed Ossman	Board Member	2008
Bruce Temple	Board Member	2008
<b>School Officials</b>		
Carol Montz	Superintendent	2006
Bev Colbert	District Secretary/Treasurer	2006
C. Joseph Holland	Attorney	2006

**KAY L. CHAPMAN, CPA PC**

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

Independent Auditor's Report

To the Board of Education  
Highland Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Highland Community School District, Riverside, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Highland Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated August 9, 2006 on my consideration of Highland Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 41 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Highland Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kay L. Chapman, CPA PC  
August 9, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Highland Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,846,833 in fiscal 2005 to \$5,253,224 in fiscal 2006, while General Fund expenditures increased from \$4,718,336 in fiscal 2005 to \$5,157,832 in fiscal 2006. The District's General Fund balance increased from \$(98,996) in fiscal 2005 to \$(13,802) in fiscal 2006, an 86% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance increased is because the Board levied for a cash reserve in the amount of \$79,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Highland Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Highland Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Governmental Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Highland Community School District Annual Financial Report**

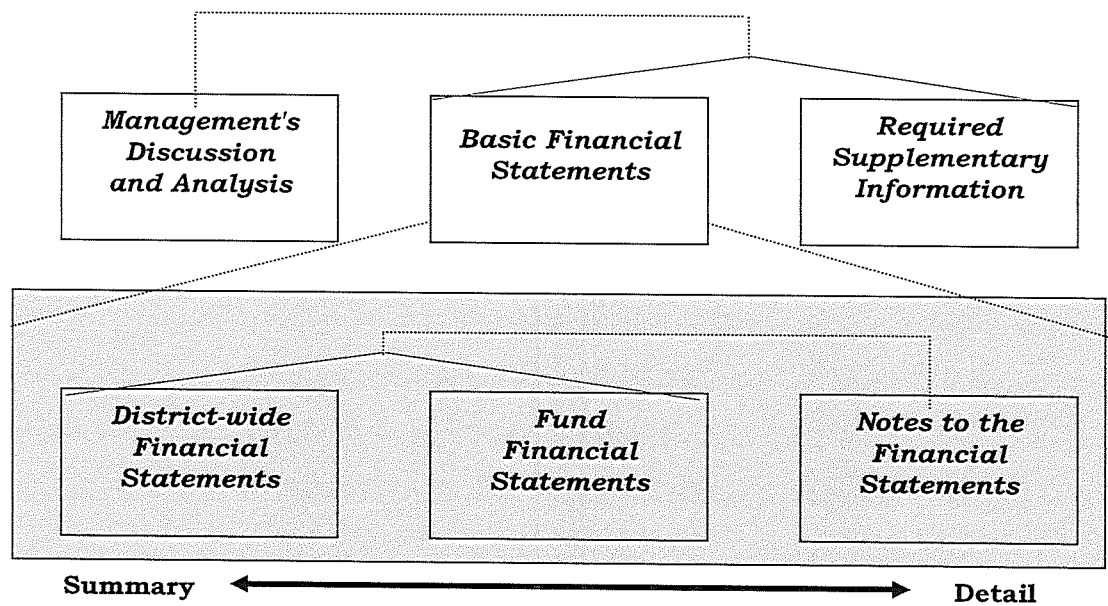




Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator

of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and preschool programs are included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and Preschool Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3

### Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Current and other assets	\$ 4,064,724	\$ 3,903,970	\$ 23,473	\$ 12,233	\$ 4,088,197	\$ 3,916,203	4.39%
Capital assets	<u>4,661,718</u>	<u>4,558,423</u>	<u>9,600</u>	<u>10,032</u>	<u>4,671,318</u>	<u>4,568,455</u>	2.25%
Total assets	<u>8,726,442</u>	<u>8,462,393</u>	<u>33,073</u>	<u>22,265</u>	<u>8,759,515</u>	<u>8,484,658</u>	3.24%
Long-term obligations	3,248,538	3,495,573	-	-	3,248,538	3,495,573	0.00%
Other liabilities	<u>3,745,403</u>	<u>3,830,988</u>	<u>14,000</u>	<u>36,873</u>	<u>3,759,403</u>	<u>3,867,861</u>	-2.80%
Total liabilities	<u>6,993,941</u>	<u>7,326,561</u>	<u>14,000</u>	<u>36,873</u>	<u>7,007,941</u>	<u>7,363,434</u>	-4.83%
Net assets							
Invested in capital assets, net of related debt	1,611,718	1,293,028	9,600	10,032	1,621,318	1,303,060	24.42%
Restricted	347,733	203,872	-	-	347,733	203,872	70.56%
Unrestricted	<u>(226,950)</u>	<u>(361,068)</u>	<u>(13,845)</u>	<u>(24,640)</u>	<u>(240,795)</u>	<u>(385,708)</u>	37.57%
Total net assets	<u>\$ 1,732,501</u>	<u>\$ 1,135,832</u>	<u>\$ (4,245)</u>	<u>\$ (14,608)</u>	<u>\$ 1,728,256</u>	<u>\$ 1,121,224</u>	54.14%

The District's combined net assets increased by approximately 54%, or \$607,032, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$143,861, or approximately 71% over the prior year. The increase was primarily a result of balances in the Physical Plant and Equipment Levy and the Capital Projects fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$144,913, or approximately 38%. This increase in unrestricted net assets was a result of the District's revenues being greater than the District's expenditures. This was due in part to the cash reserve levy in the General Fund.

Figure A-4 shows the change in net assets for the year ended June 30, 2006.

Figure A-4  
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Revenues							
Program revenues							
Charges for service and sales	\$ 587,591	\$ 493,822	\$ 210,722	\$ 184,422	\$ 798,313	\$ 678,244	17.70%
Operating grants and contributions	553,016	445,681	78,954	73,227	631,970	518,908	21.79%
Capital grants and contributions	-	32,874	-	-	-	32,874	-100.00%
General revenues							
Property tax	2,195,850	2,190,877	-	-	2,195,850	2,190,877	0.23%
Local option sales and services tax	326,496	95,420	-	-	326,496	95,420	242.17%
Unrestricted state grants	2,558,407	2,289,020	-	-	2,558,407	2,289,020	11.77%
Unrestricted investment earnings	61,199	33,808	-	-	61,199	33,808	81.02%
Contributions and donations	12,161	22,989	-	-	12,161	22,989	-47.10%
Other	6,713	1,873	-	-	6,713	1,873	258.41%
Gain (loss) on disposal of assets	2,902	(1,393)	-	-	2,902	(1,393)	-308.33%
Contributed capital	-	-	2,900	-	2,900	-	0.00%
Total revenues	<u>6,304,335</u>	<u>5,604,971</u>	<u>292,576</u>	<u>257,649</u>	<u>6,596,911</u>	<u>5,862,620</u>	12.52%
Program expenses							
Governmental activities							
Instruction	3,486,107	3,216,511	-	-	3,486,107	3,216,511	8.38%
Support services	1,703,365	1,557,663	-	-	1,703,365	1,557,663	9.35%
Non-instructional programs	-	4,766	282,213	256,639	282,213	261,405	7.96%
Other expenses	<u>518,194</u>	<u>502,553</u>	<u>-</u>	<u>-</u>	<u>518,194</u>	<u>502,553</u>	3.11%
Total expenses	<u>5,707,666</u>	<u>5,281,493</u>	<u>282,213</u>	<u>256,639</u>	<u>5,989,879</u>	<u>5,538,132</u>	8.16%
Change in net assets	<u>\$ 596,669</u>	<u>\$ 323,478</u>	<u>\$ 10,363</u>	<u>\$ 1,010</u>	<u>\$ 607,032</u>	<u>\$ 324,488</u>	87.07%

In fiscal 2006, property tax and unrestricted state grants account for approximately 75% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for approximately 99% of the revenue from business type activities.

The District's total revenues were \$6,596,911 of which \$6,304,335 was for governmental activities and \$292,576 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 12.52% increase in revenues and an 8.16% increase in expenses. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

## Governmental Activities

Revenues for governmental activities were \$6,304,335 and expenses were \$5,707,666. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-2006	2006	2005	Change 2005-2006
Instruction	\$3,486,107	\$3,216,511	8.38%	\$2,565,277	\$ 2,454,999	4.49%
Support services	1,703,365	1,557,663	9.35%	1,699,398	1,555,217	9.27%
Non-instructional programs	-	4,766	-100.00%	-	4,766	-100.00%
Other expenses	<u>518,494</u>	<u>502,553</u>	3.17%	<u>302,384</u>	<u>294,134</u>	2.80%
Total expenses	<u>\$5,707,966</u>	<u>\$5,281,493</u>	8.07%	<u>\$4,567,059</u>	<u>\$ 4,309,116</u>	5.99%

- The cost financed by users of the District's programs was \$587,591.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$553,016.
- The net cost of governmental activities was financed with \$2,522,346 in property taxes and \$2,558,407 in unrestricted state grants.

## Business Type Activities

Revenues for business type activities were \$292,576 representing a 13 percent increase over the prior year while expenses totaled \$257,649, a 9 percent increase over the prior year. The District's business type activities include the School Nutrition Fund and Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the District increased meal prices. This increase resulted in increased revenue to the School Nutrition Fund to eliminate the deficit balance.

## INDIVIDUAL FUND ANALYSIS

As previously noted, Highland Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$337,708, well above last year's ending fund balances of \$94,962. The primary reason for the increase was from the balance in the Capital Projects fund due to SILO revenues.

### **Governmental Fund Highlights**

- The District's improving General Fund financial position is the result of many factors. The primary factor was the growth during the year in tax and grants resulting in an increase in revenues of 8.4% over fiscal year 2005. At the same time General Fund expenditures increased only 9.3% over fiscal year 2005.
- The General Fund balance increased from \$(98,996) to \$(13,802), due in part to the cash reserve levy and the reallocation of computer expenditures to the SILO fund.
- The Capital Projects Fund balance increased due to revenues from the SILO fund that were not spent in fiscal 2006. The funds were allocated for the high school boiler project which was not completed until the fall of 2006. Fiscal 2006 ended with a fund balance of \$209,428 compared to \$97,570 in fiscal 2005.
- The Debt Service Fund balance increased from \$8,713 in fiscal 2005 to \$15,511 in fiscal 2006.

### **Proprietary Fund Highlights**

Enterprise Fund net assets increased from \$(14,608) at June 30, 2005 to \$(4,245) at June 30, 2006, representing an increase of approximately 70%. This increase was due to prudent fiscal management of the school nutrition and preschool programs.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Highland Community School District amended its annual budget one time by \$854,724 to reflect additional revenue and expenditures associated with instruction, student support services, non-instructional programs and other expenditures.

The District's receipts were \$444,777 more than budgeted receipts, a variance of approximately 7%. The most significant variance resulted from the District receiving funds from the SILO levy that had not been budgeted for fiscal 2006.

Total disbursements were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through the line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the Support Services functional area due to the UFA Chart of Account code conversion required by the Department of Education to meet federal regulations concerning financial reporting.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$4,671,318, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of approximately 2% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$211,060.

The original cost of the District's capital assets was \$7,389,963. Governmental funds account for \$7,309,555, with the remainder of \$80,408 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category. This was due to the purchase of three school buses during fiscal 2006.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Land	\$ 76,612	\$ 76,612	\$ -	\$ -	\$ 76,612	\$ 76,612	0.00%
Buildings and improvements	4,097,191	4,166,393	-	-	4,097,191	4,166,393	-1.66%
Improvements, other than buildings	199,235	200,130	-	-	199,235	200,130	-0.45%
Furniture and equipment	<u>288,680</u>	<u>115,288</u>	<u>9,600</u>	<u>10,032</u>	<u>298,280</u>	<u>125,320</u>	138.01%
Totals	<u>\$4,661,718</u>	<u>\$4,558,423</u>	<u>\$ 9,600</u>	<u>\$10,032</u>	<u>\$4,671,318</u>	<u>\$4,568,455</u>	2.25%

### Long-Term Debt

At June 30, 2006, the District had \$3,248,538 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 7% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Included in the long-term debt are general obligation bonds of \$3,050,000, compensated absences of \$35,668 and early retirement benefits of \$162,870.

Figure A-7  
Outstanding Long-term Obligations

	Total		Total
	School District		Change
	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
General obligation bonds	\$ 3,050,000	\$ 3,255,000	-6.30%
Capital loan notes	-	10,395	-100.00%
Compensated absences	35,668	29,334	21.59%
Early retirement	<u>162,870</u>	<u>200,844</u>	-18.91%
Total	<u>\$ 3,248,538</u>	<u>\$ 3,495,573</u>	-7.07%

### **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- In August 2004 a vote was held to build a new casino in Riverside, Iowa. The property will be annexed into the city and even though the area will be in a tax increment district for a maximum ten years to pay for water and sewer infrastructure it will affect the tax base in the immediate future for the debt service and physical plant and equipment levies. A private foundation has been formed to allocate funds (\$2.6 to \$3.2 million) annually to public entities such as school districts, non-profit organizations and for economic development. This will have a long-term affect on the district due to an increased tax base, foundation funds, one-cent sales tax, increased employment and therefore an increase in people moving into the district. The full impact of the casino on the taxable valuation will not be felt until the fiscal 2009 school year.
- Even though we had a slight decrease in enrollment for fiscal 2007, the general fund taxable valuation increased by 10%.
- SILO funds were used to purchase three new school buses during fiscal 2006, which in the past have been funded by capital loan notes from the General Fund. We will no longer be using the General Fund for long-term purchases of this type.
- The Board has earmarked \$25,000-\$30,000 per year for computer hardware from the SILO fund. This frees up General Fund monies for other uses.
- To improve the financial position of the school lunch program we are continuing with the state coop purchasing program and closely monitoring revenues and expenditures.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Board Secretary/Business Manager Bev Colbert at 319-648-3822 or 319-657-4180.



## Basic Financial Statements

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2006

Exhibit A

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents			
ISCAP	\$ 1,097,159	\$ -	\$ 1,097,159
Other	647,619	22,765	670,384
Receivables			
Property tax			
Delinquent	29,622	-	29,622
Succeeding year	2,059,947	-	2,059,947
Accrued interest			
ISCAP	7,249	-	7,249
Accounts receivable	9,450	-	9,450
Due from other governments	199,678	-	199,678
Due from other funds	14,000	-	14,000
Inventories	-	708	708
Capital assets, net of accumulated depreciation	4,661,718	9,600	4,671,318
Total assets	<u>8,726,442</u>	<u>33,073</u>	<u>8,759,515</u>
<b>LIABILITIES</b>			
Accounts payable	68,705	-	68,705
Salaries and benefits payable	487,214	-	487,214
Due to other funds	-	14,000	14,000
Accrued interest payable	18,387	-	18,387
Deferred revenue - succeeding year property tax	2,059,947	-	2,059,947
ISCAP warrants payable	1,097,000	-	1,097,000
ISCAP accrued interest payable	6,273	-	6,273
ISCAP unamortized premium	7,877	-	7,877
Long-term liabilities			
Portion due within one year			
Bonds payable	260,000	-	260,000
Early retirement	35,943	-	35,943
Portion due after one year			
Bonds payable	2,790,000	-	2,790,000
Compensated absences	35,668	-	35,668
Early retirement	126,927	-	126,927
Total liabilities	<u>6,993,941</u>	<u>14,000</u>	<u>7,007,941</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2006

Exhibit A

	Governmental Activities	Business Type Activities	Total
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 1,611,718	\$ 9,600	\$ 1,621,318
Restricted for			
Physical plant and equipment levy	38,112	-	38,112
Other special revenue purposes	84,682	-	84,682
Capital projects	209,428	-	209,428
Debt service	15,511	-	15,511
Unrestricted	(226,950)	(13,845)	(240,795)
Total net assets	<u>\$ 1,732,501</u>	<u>\$ (4,245)</u>	<u>\$ 1,728,256</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Business Type		Total
					Governmental Activities	Activities	
Governmental activities							
Instruction							
Regular instruction	\$ 2,313,149	\$ 459,568	\$ 273,047	\$ -	\$ (1,580,534)	\$ -	\$ (1,580,534)
Special instruction	721,600	124,906	60,890	-	(535,804)	-	(535,804)
Other instruction	<u>451,358</u>	<u>-</u>	<u>2,419</u>	<u>-</u>	<u>(448,939)</u>	<u>-</u>	<u>(448,939)</u>
	3,486,107	584,474	336,356	-	(2,565,277)	-	(2,565,277)
Support services							
Student services	63,327	-	-	-	(63,327)	-	(63,327)
Instructional staff services	292,238	-	-	-	(292,238)	-	(292,238)
Administration services	663,230	-	-	-	(663,230)	-	(663,230)
Operation and maintenance of plant services	464,139	3,117	-	-	(461,022)	-	(461,022)
Transportation services	<u>220,431</u>	<u>-</u>	<u>850</u>	<u>-</u>	<u>(219,581)</u>	<u>-</u>	<u>(219,581)</u>
	1,703,365	3,117	850	-	(1,699,398)	-	(1,699,398)
Non-instructional programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures							
Facilities acquisition	7,249	-	21,400	-	14,151	-	14,151
Long-term debt interest	195,015	-	-	-	(195,015)	-	(195,015)
AEA flowthrough	194,410	-	194,410	-	-	-	-
Depreciation (unallocated) *	<u>121,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(121,520)</u>	<u>-</u>	<u>(121,520)</u>
	518,194	-	215,810	-	(302,384)	-	(302,384)
Total governmental activities	<u>5,707,666</u>	<u>587,591</u>	<u>553,016</u>	<u>-</u>	<u>(4,567,059)</u>	<u>-</u>	<u>(4,567,059)</u>

See notes to financial statements and Independent Auditor's Report.

# HIGHLAND COMMUNITY SCHOOL DISTRICT

## Statement of Activities

For the Year Ended June 30, 2006

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs (continued)</b>							
Business type activities							
Non-instructional programs							
Food service operations	\$ 227,700	\$ 147,639	\$ 78,954	\$ -	\$ -	\$ (1,107)	\$ (1,107)
Preschool program operations	54,513	63,083	-	-	-	8,570	8,570
Total business type activities	282,213	210,722	78,954	-	-	7,463	7,463
Total	\$ 5,989,879	\$ 798,313	\$ 631,970	\$ -	(4,567,059)	7,463	(4,559,596)

## General Revenues

Property tax levied for	1,737,256	-	1,737,256
General purposes	239,397	-	239,397
Debt service	219,197	-	219,197
Capital outlay	326,496	-	326,496
Local option sales and services tax	2,558,407	-	2,558,407
Unrestricted state grants	61,199	-	61,199
Unrestricted investment earnings	12,161	-	12,161
Contributions and donations	6,713	-	6,713
Other	2,902	-	2,902
Loss on disposal of assets	5,163,728	-	5,163,728
Total general revenues	-	2,900	2,900
Contributed capital			
Change in net assets	596,669	10,363	607,032
Net assets, beginning of year	1,135,832	(14,608)	1,121,224
Net assets, end of year	\$ 1,732,501	\$ (4,245)	\$ 1,728,256

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Balance Sheet  
Governmental Funds  
June 30, 2006

Exhibit C

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
<b>ASSETS</b>					
Cash and pooled investments					
ISCAP	\$ 1,097,159	\$ -	\$ -	\$ -	\$ 1,097,159
Other	390,866	123,208	11,978	121,567	647,619
Receivables					
Property tax					
Delinquent	21,124	-	3,517	4,981	29,622
Succeeding year	1,498,216	-	228,664	333,067	2,059,947
Accounts receivable	9,450	-	-	-	9,450
ISCAP accrued interest	7,249	-	-	-	7,249
Due from other funds	14,000	-	-	-	14,000
Due from other governments	112,791	86,848	16	23	199,678
Total assets and other debits	<u>\$ 3,150,855</u>	<u>\$ 210,056</u>	<u>\$ 244,175</u>	<u>\$ 459,638</u>	<u>\$ 4,064,724</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 68,077	\$ 628	\$ -	\$ -	\$ 68,705
Salaries and benefits payable	487,214	-	-	-	487,214
ISCAP warrants payable	1,097,000	-	-	-	1,097,000
ISCAP accrued interest payable	6,273	-	-	-	6,273
ISCAP unamortized premium	7,877	-	-	-	7,877
Deferred revenue					
Succeeding year property tax	1,498,216	-	228,664	333,067	2,059,947
Total liabilities	<u>3,164,657</u>	<u>628</u>	<u>228,664</u>	<u>333,067</u>	<u>3,727,016</u>
Fund balances					
Reserved for					
Debt service	-	-	15,511	-	15,511
Unreserved					
Special revenue funds	-	-	-	126,571	126,571
Other governmental	(13,802)	209,428	-	-	195,626
Total fund balances	<u>(13,802)</u>	<u>209,428</u>	<u>15,511</u>	<u>126,571</u>	<u>337,708</u>
Total liabilities and fund balances	<u>\$ 3,150,855</u>	<u>\$ 210,056</u>	<u>\$ 244,175</u>	<u>\$ 459,638</u>	<u>\$ 4,064,724</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2006

Exhibit D

Total fund balances of governmental funds	\$ 337,708
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,661,718
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(18,387)
Long-term liabilities, including early retirement, bonds payable, notes payable, capital loan notes and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,248,538)</u>
Net assets of governmental activities	<u><u>\$ 1,732,501</u></u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2006

Exhibit E

	General	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
Revenues					
Local sources					
Local tax	\$ 1,621,463	\$ 326,496	\$ 239,237	\$ 333,888	\$ 2,521,084
Tuition	340,475	-	-	-	340,475
Other	187,781	2,943	1,959	121,446	314,129
Intermediate sources	12,600	-	-	-	12,600
State sources	2,964,908	-	160	220	2,965,288
Federal sources	125,997	-	-	21,400	147,397
Total revenues	<u>5,253,224</u>	<u>329,439</u>	<u>241,356</u>	<u>476,954</u>	<u>6,300,973</u>
Expenditures					
Current					
Instruction					
Regular instruction	2,230,826	-	-	109,395	2,340,221
Special instruction	717,324	-	-	-	717,324
Other instruction	440,947	-	-	-	440,947
	<u>3,389,097</u>	<u>-</u>	<u>-</u>	<u>109,395</u>	<u>3,498,492</u>
Support services					
Student services	63,327	28,040	-	-	91,367
Instructional staff services	269,235	-	-	-	269,235
Administration services	601,378	1,525	-	56,696	659,599
Operation and maintenance of plant	464,616	-	-	30,458	495,074
Transportation services	175,769	167,148	-	18,744	361,661
	<u>1,574,325</u>	<u>196,713</u>	<u>-</u>	<u>105,898</u>	<u>1,876,936</u>

See notes to financial statements and Independent Auditor's Report.



HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2006

Exhibit E

	Governmental Funds		Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
	General					
Expenditures (continued)						
Other expenditures						
Facilities acquisition						
Long-term debt						
Principal	-	\$	20,868	\$	-	\$ 75,898
Interest and fiscal charges	-		-		-	265,395
AEA flowthrough	194,410		-		-	198,608
	194,410		-		-	194,410
	194,410		20,868		55,030	734,311
Total expenditures	5,157,832		217,581		270,323	6,109,739
Excess (deficiency) of revenues over (under) expenditures	95,392		111,858	(222,647)	206,631	191,234
Other financing sources (uses)						
Sale of equipment and materials	460		-	-	-	460
Proceeds from refunding debt	-		-	1,351,052	-	1,351,052
Payment to refunded debt escrow agent	-		-	(1,300,000)	-	(1,300,000)
Interfund operating transfers in (out)	(10,658)		-	178,393	(167,735)	-
Total other financing sources (uses)	(10,198)		-	229,445	(167,735)	51,512
Net change in fund balances	85,194		111,858	6,798	38,896	242,746
Fund balance, beginning of year	(98,996)		97,570	8,713	87,675	94,962
Fund balance, end of year	\$ (13,802)	\$	209,428	\$	15,511	\$ 337,708

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2006

Exhibit F

Net change in fund balances - total governmental funds \$ 242,746  
Amounts reported for governmental activities in the statement of activities  
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 311,023	
Depreciation expense	<u>(207,728)</u>	103,295

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments as follows:

Issued	(1,350,000)	
Repaid	<u>1,565,395</u>	215,395

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		37,974
Compensated absences		<u>(6,334)</u>

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

3,593

Change in net assets of governmental activities	<u><u>\$ 596,669</u></u>
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See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2006

Exhibit G

	Nonmajor Enterprise Funds
<b>ASSETS</b>	
Cash and cash equivalents	\$ 22,765
Inventories	708
Capital assets, net of accumulated depreciation	<u>9,600</u>
Total assets	<u>33,073</u>
 <b>LIABILITIES</b>	
Due to other funds	14,000
Salaries and benefits payable	21,764
Deferred revenue	<u>1,554</u>
Total liabilities	<u>37,318</u>
 <b>NET ASSETS</b>	
Invested in capital assets	9,600
Unrestricted	<u>(13,845)</u>
Total net assets	<u>\$ (4,245)</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2006

Exhibit H

	Nonmajor Enterprise Funds
Operating revenue	
Local sources	
Charges for service	<u>\$ 210,722</u>
Operating expenses	
Non-instructional programs	
Food service operations	
Salaries	96,637
Benefits	17,613
Purchased services	952
Supplies	106,481
Equipment repairs	2,685
Depreciation	<u>3,332</u>
	<u>227,700</u>
Preschool program	
Salaries	40,880
Benefits	12,893
Purchased services	460
Supplies	<u>280</u>
	<u>54,513</u>
Total operating expenses	<u>282,213</u>
Operating loss	<u>(71,491)</u>
Non-operating revenues	
State sources	3,254
Federal sources	<u>75,700</u>
Total non-operating revenues	<u>78,954</u>
Income before contributed capital	7,463
Contributed capital	<u>2,900</u>
Change in net assets	10,363
Net assets, beginning of year	<u>(14,608)</u>
Net assets, end of year	<u>\$ (4,245)</u>

See notes to financial statements and Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2006

Exhibit I

	Nonmajor Enterprise Funds
Cash flows from operating activities	
Cash received from sale of meals	\$ 149,193
Cash received from program activities	63,083
Cash payments to employees for services	(165,582)
Cash payments to suppliers for goods and services	(99,768)
Net cash used in operating activities	<u>(53,074)</u>
Cash flows from non-capital financing activities	
State grants received	3,254
Federal grants received	61,415
Net cash provided by non-capital financing activities	<u>64,669</u>
Net increase in cash and cash equivalents	11,595
Cash and cash equivalents, beginning of year	11,170
Cash and cash equivalents, end of year	<u>\$ 22,765</u>
 <b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (71,491)
Adjustments to reconcile operating loss to net cash used in operating activities	
Commodities used	14,285
Depreciation	3,332
Decrease in inventories	355
(Decrease) in due to other fund	(3,550)
Increase in salaries and benefits payable	2,441
Increase in deferred revenue	1,554
Net cash used in operating activities	<u>\$ (53,074)</u>

**Non-cash investing, capital and financing activities**

During the year ended June 30, 2006, the District received \$14,285 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

## HIGHLAND COMMUNITY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2006

#### **Note 1. Summary of Significant Accounting Policies**

The Highland Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Ainsworth and Riverside, Iowa, and the predominant agricultural territory in Louisa, Johnson and Washington Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

##### A. Reporting Entity

For financial reporting purposes, Highland Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Highland Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

##### B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports no major proprietary funds. However, the District reports two nonmajor enterprise funds. The School Nutrition Fund, which is used to account for the food service operations of the District and the Preschool/Daycare Fund, which is used to account for the preschool and daycare operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, early retirement and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.



#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$2,500
Buildings	\$1,500
Improvements other than buildings	\$1,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20 years
Buses	7 years
Vans	4 years
Furniture and equipment	5 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Compensated Absences - Certain District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities would be paid primarily by the General Fund.

Early Retirement - District employees meeting certain requirements are eligible for early retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2006. The early retirement liability attributable to the governmental activities would be paid primarily by the General and Management Funds. This liability has been computed based on amounts established in the District's adopted board policy regarding early retirement benefits.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the Support Services and Non-instructional Programs functions. However, disbursements did not exceed its General Fund unspent authorized budget.

#### **Note 2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized
	Cost
Diversified Portfolio	\$562,603

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

### **Note 3. Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise Fund School Nutrition	\$14,000

The School Nutrition Fund is repaying the General Fund for salaries and benefits paid by the General Fund for food service employees. The balance will be repaid during the fiscal year ending June 30, 2006.

### **Note 4. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 10,658
Debt Service	Physical Plant and Equipment Levy	<u>167,735</u>
Total		<u>\$ 178,393</u>

These transfers move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### **Note 5. Iowa Schools Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2005-06B	1/26/06	1/26/07	\$ 346,204	\$ 7,016	\$ 345,000	\$ 2,154	\$ 6,081
2006-07A	6/28/06	6/28/07	<u>750,955</u>	<u>233</u>	<u>752,000</u>	<u>5,723</u>	<u>192</u>
			<u>\$ 1,097,159</u>	<u>\$ 7,249</u>	<u>\$ 1,097,000</u>	<u>\$ 7,877</u>	<u>\$ 6,273</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

<u>Series</u>	<u>Balance, Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance, End of Year</u>
2005-06A	\$ -	\$ 488,000	\$ 488,000	\$ -

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2005-06A	4.000%	3.9030%
2005-06B	4.500%	4.7720%
2006-07A	4.500%	5.6760%

## Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 76,612	\$ -	\$ -	\$ 76,612
Total capital assets, not being depreciated	<u>76,612</u>	<u>-</u>	<u>-</u>	<u>76,612</u>
Capital assets being depreciated:				
Buildings and improvements	5,560,783	41,198	-	5,601,981
Improvements other than buildings	437,784	16,518	-	454,302
Furniture and equipment	<u>1,034,896</u>	<u>253,307</u>	<u>(111,543)</u>	<u>1,176,660</u>
Total capital assets being depreciated	<u>7,033,463</u>	<u>311,023</u>	<u>(111,543)</u>	<u>7,232,943</u>
Less accumulated depreciation for:				
Buildings and improvements	1,394,390	110,400	-	1,504,790
Improvements other than buildings	237,654	17,413	-	255,067
Furniture and equipment	<u>919,608</u>	<u>79,915</u>	<u>(111,543)</u>	<u>887,980</u>
Total accumulated depreciation	<u>2,551,652</u>	<u>207,728</u>	<u>(111,543)</u>	<u>2,647,837</u>
Total capital assets being depreciated, net	<u>4,481,811</u>	<u>103,295</u>	<u>-</u>	<u>4,585,106</u>
Governmental activities capital assets, net	<u>\$ 4,558,423</u>	<u>\$ 103,295</u>	<u>\$ -</u>	<u>\$ 4,661,718</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 77,508	\$ 2,900	\$ -	\$ 80,408
Less accumulated depreciation	<u>67,476</u>	<u>3,332</u>	<u>-</u>	<u>70,808</u>
Business type activities capital assets, net	<u>\$ 10,032</u>	<u>\$ (432)</u>	<u>\$ -</u>	<u>\$ 9,600</u>

Depreciation expense was charged to the following functions:

**Governmental activities**

Instruction	
Regular	\$ 6,135
Special	4,276
Other	10,411
Support services	
Instructional staff	23,003
Administration	5,174
Operation and maintenance of plant	1,591
Transportation	35,618
Unallocated depreciation	<u>121,520</u>
Total governmental activities depreciation expense	<u>\$ 207,728</u>

**Business type activities**

Food services	<u>\$ 3,332</u>
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**Note 7. Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 3,255,000	\$ 1,350,000	\$(1,555,000)	\$ 3,050,000	\$ 260,000
Capital loan notes	10,395	-	(10,395)	-	-
Compensated absences	29,334	18,471	(12,137)	35,668	-
Early retirement	<u>200,844</u>	<u>4,466</u>	<u>(42,440)</u>	<u>162,870</u>	<u>35,943</u>
Totals	<u>\$ 3,495,573</u>	<u>\$ 1,372,937</u>	<u>\$(1,619,972)</u>	<u>\$ 3,248,538</u>	<u>\$ 295,943</u>

## General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of November 1, 2005			Bond issue of May 1, 1998		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	\$ 54,102	\$ -	\$ 54,102	\$ 39,062	\$ 135,000	\$ 174,062
2008	54,102	-	54,102	33,056	145,000	178,056
2009	54,102	-	54,102	26,530	150,000	176,530
2010	54,102	-	54,102	19,630	155,000	174,630
2011	54,102	-	54,102	12,422	165,000	177,422
2012	54,102	45,000	99,102	4,750	100,000	104,750
2013	52,415	195,000	247,415	-	-	-
2014	45,006	205,000	250,006	-	-	-
2015	37,010	215,000	252,010	-	-	-
2016	28,410	220,000	248,410	-	-	-
2017	19,390	230,000	249,390	-	-	-
2018	<u>9,960</u>	<u>240,000</u>	<u>249,960</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 516,803</u>	<u>\$ 1,350,000</u>	<u>\$ 1,866,803</u>	<u>\$135,450</u>	<u>\$ 850,000</u>	<u>\$ 985,450</u>

Year Ending June 30,	Bond issue of August 1, 2001			Totals		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	\$ 38,322	\$ 125,000	\$ 163,322	\$131,486	\$ 260,000	\$ 228,164
2008	33,072	135,000	168,072	120,230	280,000	232,158
2009	27,268	140,000	167,268	107,900	290,000	230,632
2010	21,108	145,000	166,108	94,840	300,000	228,732
2011	14,656	150,000	164,656	81,180	315,000	231,524
2012	7,680	155,000	162,680	66,532	300,000	203,852
2013	-	-	-	52,415	195,000	247,415
2014	-	-	-	45,006	205,000	250,006
2015	-	-	-	37,010	215,000	252,010
2016	-	-	-	28,410	220,000	248,410
2017	-	-	-	19,390	230,000	249,390
2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,960</u>	<u>240,000</u>	<u>249,960</u>
Totals	<u>\$ 142,106</u>	<u>\$ 850,000</u>	<u>\$ 992,106</u>	<u>\$794,359</u>	<u>\$ 3,050,000</u>	<u>\$ 2,852,253</u>



### Refunded Bonds

On November 1, 2005, the District issued general obligation bonds of \$1,350,000 (par value) with interest rates varying from 3.75% to 4.15% to advance refund a May 1, 1998 issue of \$1,300,000 with interest rates varying from 4.875% to 5.0%. The 2005 general obligation bonds were issued at a discount of \$15,525, with an original issue discount of \$6,204 and accrued interest earned of \$840. After paying issuance costs of \$11,950, the net proceeds were \$1,317,161 which were used to purchase U.S. government securities deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds were called on May 1, 2006. The advance refunding met the requirements of an in-substance debt defeasance and the 1998 bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$48,035, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt of \$48,246.

### Compensated Absences

Certain District employees accumulate vacation hours for subsequent use or for payment upon termination, retirement, or death. The District's maximum liability for accumulated compensated absences was \$35,668 at June 30, 2006. No individuals had requested payment for unused vacation hours as of June 30, 2006.

### Early Retirement

Certified District employees who have 15 years of continuous service at Highland Community School District and are age 55 or older are eligible for early retirement pay. The early retirement incentive for each eligible certified employee approved by the Board shall be the cost to the District for providing continuing coverage under the District's group insurance plan until the certified employee reached age 65. The coverage shall constitute the employee's single health and dental coverage applicable at the time of separation. The certified employee must meet the requirements of the insurer to continue coverage under this plan.

The Board has complete discretion to offer or not offer an early retirement plan for certified employees on an annual basis. The Board may discontinue the District's early retirement plan at any time.

The employee must notify the Board by April first to receive the early retirement benefits. At June 30, 2006, the maximum accumulated retirement benefits of the District was \$200,844 and eight individuals had requested early retirement and were receiving the benefit. Early retirement expenditures for the year ended June 30, 2006 totaled \$162,870.

#### **Note 8. Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$175,666, \$161,670 and \$157,140, respectively, equal to the required contributions for each year.

#### **Note 9. Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **Note 10. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$194,410 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

#### **Note 11. Deficit Balances**

The District had unreserved, undesignated fund deficits in the General Fund and Enterprise Fund-School Nutrition Fund of \$13,802 and \$19,139 at June 30, 2006.

## Required Supplementary Information

# HIGHLAND COMMUNITY SCHOOL DISTRICT

## Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)

### All Governmental Funds and Proprietary Funds

#### Required Supplementary Information

For the Year Ended June 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Receipts						
Local sources	\$ 3,038,302	\$ 212,276	\$ 3,250,578	\$ 2,885,470	\$ 2,885,470	\$ 365,108
Intermediate sources	12,600	-	12,600	-	-	12,600
State sources	2,965,288	3,254	2,968,542	2,966,421	2,966,421	2,121
Federal sources	146,195	61,415	207,610	142,662	142,662	64,948
Total receipts	6,162,385	276,945	6,439,330	5,994,553	5,994,553	444,777
Disbursements						
Instruction	3,545,149	-	3,545,149	3,405,653	3,750,000	204,851
Support services	1,830,956	-	1,830,956	1,644,937	1,800,000	(30,956)
Non-instructional programs	-	265,350	265,350	228,600	350,000	84,650
Other expenditures	683,471	-	683,471	716,086	950,000	266,529
Total disbursements	6,059,576	265,350	6,324,926	5,995,276	6,850,000	525,074
Excess (deficiency) of receipts over						
(under) disbursements	102,809	11,595	114,404	(723)	(855,447)	969,851
Other financing sources, net	671	-	671	1,500	1,500	(829)
Excess (deficiency) of receipts and other						
financing sources over (under) disbursements	103,480	11,595	115,075	777	(853,947)	969,022
Balance, beginning of year	544,139	11,170	555,309	499,593	499,593	55,716
Balance, end of year	\$ 647,619	\$ 22,765	\$ 670,384	\$ 500,370	\$ (354,354)	\$ 1,024,738

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
 Required Supplementary Information  
 For the Year Ended June 30, 2006

	<u>Governmental Fund Types</u>		
	<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjustments</u>	<u>Modified</u> <u>Accrual</u> <u>Basis</u>
Revenues	\$ 6,162,385	\$ 138,588	\$ 6,300,973
Expenditures	<u>6,059,576</u>	<u>50,163</u>	<u>6,109,739</u>
Net	102,809	88,425	191,234
Other financing sources	671	50,841	51,512
Beginning fund balances	<u>544,139</u>	<u>(449,177)</u>	<u>94,962</u>
Ending fund balances	<u>\$ 647,619</u>	<u>\$ (309,911)</u>	<u>\$ 337,708</u>

	<u>Proprietary Fund Type</u>		
	<u>Enterprise</u>		
	<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjustments</u>	<u>Accrual</u> <u>Basis</u>
Revenues	\$ 276,945	\$ 12,731	\$ 289,676
Expenditures	<u>265,350</u>	<u>16,863</u>	<u>282,213</u>
Net	11,595	(4,132)	7,463
Contributed capital	-	2,900	2,900
Beginning fund balances	<u>11,170</u>	<u>(25,778)</u>	<u>(14,608)</u>
Ending fund balances	<u>\$ 22,765</u>	<u>\$ (27,010)</u>	<u>\$ (4,245)</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$854,724.

During the year ended June 30, 2006, District disbursements exceeded the amount budgeted in the Support Services function; however, the General Fund unspent authorized budget was not exceeded.

## Other Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2006

Schedule 1

	Management	Student	Physical Plant and Equipment	
	<u>Levy</u>	<u>Activity</u>	<u>Levy</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and pooled investments	\$ 2,008	\$ 84,682	\$ 34,877	\$ 121,567
Receivables				
Property tax				
Current year delinquent	1,761	-	3,220	4,981
Succeeding year	100,000	-	233,067	333,067
Due from other governments	8	-	15	23
Total assets	<u>\$ 103,777</u>	<u>\$ 84,682</u>	<u>\$ 271,179</u>	<u>\$ 459,638</u>
 <b>LIABILITIES AND FUND EQUITY</b>				
Liabilities				
Deferred revenue				
Succeeding year property tax	\$ 100,000	\$ -	\$ 233,067	\$ 333,067
Fund Equity				
Unreserved fund balances	<u>3,777</u>	<u>84,682</u>	<u>38,112</u>	<u>126,571</u>
Total liabilities and fund equity	<u>\$ 103,777</u>	<u>\$ 84,682</u>	<u>\$ 271,179</u>	<u>\$ 459,638</u>

See accompanying Independent Auditor's Report.



HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
For the Year Ended June 30, 2006

Schedule 2

	Management <u>Levy</u>	Student <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	<u>Total</u>
Revenues				
Local sources				
Local taxes	\$ 114,837	\$ -	\$ 219,051	\$ 333,888
Other	3,691	115,788	1,967	121,446
State sources	74	-	146	220
Federal sources	-	-	21,400	21,400
Total revenues	<u>118,602</u>	<u>115,788</u>	<u>242,564</u>	<u>476,954</u>
Expenditures				
Current				
Instruction				
Regular instruction	-	109,395	-	109,395
Support services				
Administration services	56,696	-	-	56,696
Operation and maintenance of plant	30,458	-	-	30,458
Transportation services	9,044	-	9,700	18,744
Other expenditures				
Facilities acquisition	-	-	55,030	55,030
Total expenditures	<u>96,198</u>	<u>109,395</u>	<u>64,730</u>	<u>270,323</u>
Excess of revenues over expenditures	<u>22,404</u>	<u>6,393</u>	<u>177,834</u>	<u>206,631</u>
Other financing uses				
Interfund operating transfers out	-	-	(167,735)	(167,735)
	-	-	(167,735)	(167,735)
Excess of revenues over expenditures and other financing uses	22,404	6,393	10,099	38,896
Fund balances, beginning of year	<u>(18,627)</u>	<u>78,289</u>	<u>28,013</u>	<u>87,675</u>
Fund balances, end of year	<u>\$ 3,777</u>	<u>\$ 84,682</u>	<u>\$ 38,112</u>	<u>\$ 126,571</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Statement of Net Assets  
Nonmajor Proprietary Funds  
June 30, 2006

Schedule 3

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 342	\$22,423	\$ 22,765
Inventories	708	-	708
Capital assets, net of accumulated depreciation	9,600	-	9,600
Total assets	<u>10,650</u>	<u>22,423</u>	<u>33,073</u>
<b>LIABILITIES</b>			
Due to other funds	14,000	-	14,000
Salaries and benefits payable	14,234	7,530	21,764
Deferred revenue	1,554	-	1,554
Total liabilities	<u>29,788</u>	<u>7,530</u>	<u>37,318</u>
<b>NET ASSETS</b>			
Invested in capital assets	9,600	-	9,600
Unrestricted	<u>(28,738)</u>	<u>14,893</u>	<u>(13,845)</u>
Total net assets	<u><u>\$ (19,138)</u></u>	<u><u>\$ 14,893</u></u>	<u><u>\$ (4,245)</u></u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2006

Schedule 4

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	<u>\$ 147,639</u>	<u>\$ 63,083</u>	<u>\$ 210,722</u>
Operating expenses			
Non-instructional programs			
Salaries	96,637	40,880	137,517
Benefits	17,613	12,893	30,506
Purchased services	952	460	1,412
Supplies	106,481	280	106,761
Equipment repairs	2,685	-	2,685
Depreciation	<u>3,332</u>	<u>-</u>	<u>3,332</u>
Total operating expenses	<u>227,700</u>	<u>54,513</u>	<u>282,213</u>
Operating income (loss)	<u>(80,061)</u>	<u>8,570</u>	<u>(71,491)</u>
Non-operating revenue			
State sources	3,254	-	3,254
Federal sources	<u>75,700</u>	<u>-</u>	<u>75,700</u>
Total non-operating revenue	<u>78,954</u>	<u>-</u>	<u>78,954</u>
Income before contributed capital	(1,107)	8,570	7,463
Contributed capital	<u>2,900</u>	<u>-</u>	<u>2,900</u>
Change in net assets	1,793	8,570	10,363
Net assets, beginning of year	<u>(20,931)</u>	<u>6,323</u>	<u>(14,608)</u>
Net assets, end of year	<u>\$ (19,138)</u>	<u>\$ 14,893</u>	<u>\$ (4,245)</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Statement of Cash Flows  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2006

Schedule 5

	School <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of meals	\$ 149,193	\$ -	\$ 149,193
Cash received from sale of services	-	63,083	63,083
Cash payments to employees for services	(115,235)	(50,347)	(165,582)
Cash payments to suppliers for goods and services	<u>(99,028)</u>	<u>(740)</u>	<u>(99,768)</u>
Net cash provided by (used in) operating activities	<u>(65,070)</u>	<u>11,996</u>	<u>(53,074)</u>
Cash flows from non-capital financing activities			
State grants received	3,254	-	3,254
Federal grants received	<u>61,415</u>	<u>-</u>	<u>61,415</u>
Net cash provided by non-capital financing activities	<u>64,669</u>	<u>-</u>	<u>64,669</u>
Net increase in cash and cash equivalents	(401)	11,996	11,595
Cash and cash equivalents, beginning of year	<u>743</u>	<u>10,427</u>	<u>11,170</u>
Cash and cash equivalents, end of year	<u><u>\$ 342</u></u>	<u><u>\$ 22,423</u></u>	<u><u>\$ 22,765</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	\$ (80,061)	\$ 8,570	\$ (71,491)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Commodities used	14,285	-	14,285
Depreciation	3,332	-	3,332
Decrease in inventories	355	-	355
(Decrease) in due to other fund	(3,550)	-	(3,550)
Increase (decrease) in salaries and benefits payable	(985)	3,426	2,441
Increase in deferred revenue	<u>1,554</u>	<u>-</u>	<u>1,554</u>
Net cash provided by (used in) operating activities	<u><u>\$ (65,070)</u></u>	<u><u>\$ 11,996</u></u>	<u><u>\$ (53,074)</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006 the District received \$14,285 of federal commodities.

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
For the Year Ended June 30, 2006

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
Vocal	\$ 1,663	\$ 3,910	\$ 4,031	\$ 1,542
Instrumental	146	5,315	4,227	1,234
Pop & concessions	7,692	12,548	13,085	7,155
Student fundraising	6,835	-	-	6,835
Sixth grade class	-	115	-	115
Seventh grade class	125	59	-	184
Eighth grade class	134	84	-	218
Freshman class	50	45	36	59
Sophomore class	100	100	-	200
Junior class	200	6,935	6,616	519
Senior class	-	977	977	-
Annual	1,402	7,406	6,716	2,092
Cheerleaders	128	3,174	1,494	1,808
Drill team	1,041	2,703	3,550	194
National Honor Society	174	332	82	424
Sr high student council	1,458	2,376	1,885	1,949
Jr high student council	72	888	118	842
Drama club	635	1,395	1,363	667
Art club	55	386	441	-
Spanish club	323	-	-	323
Athletics	48,825	58,796	59,465	48,156
Jump Rope for Heart	368	-	-	368
Riverside fund	3,751	2,839	1,680	4,910
Ainsworth fund	1,846	2,015	1,616	2,245
Win with Wellness	1,209	1,603	1,054	1,758
High school fund	57	1,787	959	885
Totals	<u>\$ 78,289</u>	<u>\$ 115,788</u>	<u>\$ 109,395</u>	<u>\$ 84,682</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Four Years

Schedule 7

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues				
Local sources				
Local tax	\$ 2,521,084	\$ 2,284,988	\$ 1,975,205	\$ 1,960,630
Tuition	340,475	274,251	231,774	122,869
Other	314,129	273,500	243,793	236,871
Intermediate sources	12,600	-	-	-
State sources	2,965,288	2,643,349	2,566,864	2,472,148
Federal sources	147,397	125,535	125,143	178,111
Total revenues	<u>\$ 6,300,973</u>	<u>\$ 5,601,623</u>	<u>\$ 5,142,779</u>	<u>\$ 4,970,629</u>
Expenditures				
Instruction				
Regular instruction	\$ 2,340,221	\$ 2,041,513	\$ 1,871,992	\$ 1,825,594
Special instruction	717,324	646,978	626,402	597,195
Other instruction	440,947	527,389	332,137	348,441
Support services				
Student services	91,367	84,720	133,943	154,119
Instructional staff services	269,235	238,941	299,640	261,855
Administration services	659,599	582,102	500,669	476,655
Operation and maintenance of plant services	495,074	438,447	367,344	349,801
Transportation services	361,661	175,373	175,000	144,199
Non-instructional programs	-	4,766	3,749	5,427
Other expenditures				
Facilities acquisition	75,898	83,515	1,210,971	670,769
Long-term debt				
Principal	265,395	266,405	219,477	164,283
Interest and other charges	198,608	163,902	228,534	144,965
AEA flowthrough	194,410	175,545	183,551	185,149
Total expenditures	<u>\$ 6,109,739</u>	<u>\$ 5,429,596</u>	<u>\$ 6,153,409</u>	<u>\$ 5,328,452</u>

See accompanying Independent Auditor's Report.

# KAY L. CHAPMAN, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Board of Education  
Highland Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Highland Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated August 9, 2006. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing my audit, I considered Highland Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item (A) Segregation of Duties, is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Community School

District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Highland Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Highland Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC  
August 9, 2006



HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2006

**Part I. Findings Related to the Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

- (A) Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, I noted that the same person performs the following functions: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2006

**Part II. Other Findings Related to Statutory Reporting:**

1. Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.
2. Certified Budget - Expenditures for the year ended June 30, 2006 exceeded the amended amounts budgeted in the Support Services functional area.

Recommendation - The District should have amended the budget in sufficient amounts before expenditures were allowed to exceed the budget.

Response - We will be more attentive of this in the future and amend the budget in sufficient amounts, as necessary.

Conclusion - Response accepted.

3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
5. Business Transactions - No business transactions between the District and District officials or employees were noted.
6. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
8. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2006

10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Financial Condition - The District had unreserved, undesignated deficits in the General Fund and Enterprise-School Nutrition Fund of \$13,802 and \$19,138 at June 30, 2006.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

Response - We will review the situation and implement changes, as needed.

Conclusion - Response accepted.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2006

This audit was performed by

Kay Chapman, CPA  
Tammy Calvert, staff accountant